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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 001974

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SUBJECT: US INTERESTS AFTER THE SRI LANKAN PRESIDENTIAL ELECTION

Classified by Ambassador Jeffrey J. Lunstead for reasons 1.4 (b) and (d).

1. (C) How is the apparent victory of Mahinda Rajapakse likely to affect US interests in Sri Lanka? We define our overriding interests here quite simply: Peace and Prosperity. Peace because a successful peace process will mean the end of terrorism by the Liberation Tigers of Tamil Eelam (LTTE). Prosperity because it would both reinforce and be a product of peace, and allow Sri Lanka to reach its considerable--and up till now largely wasted--economic potential. Sri Lanka has also been a moderately helpful partner in the international arena, not always voting with us, but often willing to cast a strategic abstention.

2. (C) The questions to ask on these issues are where does Mahinda stand, where do his partners--especially the Marxist JVP--stand, and how will they interact? Mahinda has stated some general but vague views:

--Peace. Critical of the current peace process, wants to revise the Cease Fire Agreement, will build a southern consensus, hold direct talks with LTTE leader Prabhakaran. Says he wants a "unitary" state, but seems willing to consider devolution amounting to federalism in practice. Unclear about future role of the Co-Chairs, skeptical in public about the Norwegian facilitator role, more positive in private.

--Economy. Comes from a vaguely leftist background, says he supports private sector but wants a "national economy." Unclear what this means, but seems to indicate a mild amount of protectionism, enhanced government role in directing the economy. Increased subsidies, likely a ballooning budget deficit.

--International Arena. Again Rajapakse has a vaguely leftist, NAM-oriented worldview, a founder of the Palestine Friendship Society. In person has always been friendly to us and appreciative of US relationship, especially after the tsunami.

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3. (C) The JVP's views are decidedly clearer.

--Peace. The LTTE must give up its arms and abjure terrorism at the start of the peace process. No federalism in name or form.

--Economy. A mixed economy with a role for the private sector, but a very active state role. Probably very protectionist. Say they want to emulate China, Malaysia and India--but without a clear idea of what this means.

--International Arena. Strong leftist tendency, voice admiration for Castro and, more lately, Hugo Chavez.

4. (C) Mahinda Rajapakse has told us many times that he is a moderate, that he is for peace and against war, and--crucially--that he will control his JVP allies and not let them control him. After this victory the JVP will certainly be out for blood, however, and we expect a major tussle over policy direction. Key indicators in the coming days will be how Rajapakse reshapes the Cabinet, whom he chooses as Prime Minister, and whether he replaces a number of the Ministry Secretaries, such as Foreign Secretary Paliakkara and Treasury Secretary PB Jayasundera, who have been steady and responsible hands.

5. (C) On balance we think that Rajapakse, if he is able to control policy, will follow a slightly more leftist but not radical set of policies. This would be a type of "muddling through" path for Sri Lanka. It would not be as close to our interests as the policies of either Ranil Wickremesinghe or Chandrika Bandaranaike Kumaratunga were. It would, unfortunately, have a large opportunity cost, as Sri Lanka once again would miss a chance to leap forward economically. If the JVP is able to exert considerably more influence over policy, we will have much greater divergence with US interests.

6. (C) One area of potential conflict in either scenario is Millennium Challenge Account funding. MCA-eligible Sri Lanka is engaged in discussions on a compact agreement with MCC.

If the new government turns toward unsound economic policies, we believe we would have to re-consider MCA funding. This is a hypothetical at the moment, but a real possibility. And an announcement that we were dropping Sri Lanka from MCA would be a serious blow to the Government.

17. (C) The sleeper here is peace, however. Unlike the economy, this is not completely in Rajapakse's hands. The LTTE's actions during the election in preventing Tamils from voting and stating that the election was meaningless because neither Sinhalese leader could deliver justice to the Tamils are extremely worrisome. Taken to their logical conclusion, they mean that the LTTE believe there is no hope for the peace process. If that is so, adherence to the ceasefire is a tactical move, and it could be broken at any time. Everyone now anxiously awaits Prabhakaran's Heroes Day speech on November 27. Many fear that he will announce that recent history and the elections have shown Tamils can never receive their rights in a united Sri Lanka and declare an independent state. Whatever Prabhakaran says on November 27, recent Tiger actions cast a grim shadow over the peace process.

18. (C) What should the US do in this situation? Ambassador will seek an early appointment with Rajapakse, perhaps even before he is sworn in. He intends to make the points that:

- the US accepts the verdict of the Sri Lankan people,
- the US wants to work with the new government,
- our ability to do so will depend on what policies that government follows.

19. (C) We are entering a period of great uncertainty in Sri Lanka. As we have indicated above, we believe Mahinda Rajapakse's policies will diverge a bit more from US policies. This will not be an insuperable obstacle to a useful relationship if we can early on set some boundaries and a tone of frank discussion. We will try to do that, but much will depend on the external--and largely out of our control--factors of the LTTE and the JVP.

LUNSTEAD